

Adapting Your Management Style As Farm Business Structures Change

by Mike Boehlje and Bruce Erickson

A consolidation and integration of row crop enterprises similar to that which occurred in the livestock sectors of agriculture would dramatically alter the growth opportunities and strategies for farm businesses (see February, 2007 Top Farmer Crop Workshop Newsletter). Some of the most fundamental changes would be in how crop producers view the availability and utilization of agricultural resources, growth strategies, and their place in the management scheme.

“You can’t stop change, and I intend to be ready,” said Kevin Green, who with his wife Lori manages Greenview Farms based in DeWitt, Iowa. “It is amazing the changes that have occurred in how livestock is produced. Frankly we were somewhat off in our prediction for crops—we thought there would have been much more change in structure by now.”

Shifts in How Resources are Utilized

The traditional farm business has sourced its labor, capital and management resources as a bundled package--all of these resources historically have been embodied in the family farmer. In essence, the producer and his family members not only provided all of the money to finance the business (combined with modest amounts of debt), but did almost all of the work and made most of the decisions. But that bundled approach to providing resources for farming is changing to a new model where more of the labor is being hired, a broader capital base including outside investors and rented assets is being utilized, and in some cases even some management skills in the form of machinery maintenance managers or crop foremen are being hired.

Growth Not Always Incremental

Many farm businesses are growing at a rapid pace, and if the opportunities become available a farming operation might grow dramatically in size with very few steps, for instance adding 900 acres to a 1500 acre base. These aggressive expansion strategies in many cases exceed the sustainable growth rate of the business during the growth phase, and thus require the rebuilding of working capital and a reduction of the leverage position before the next growth spurt can be absorbed financially.

A related dimension of this new business environment is that many expansion/growth opportunities will be in the form of mergers and acquisitions of existing businesses rather than simply adding a facility or increment to the land or livestock base of the current farming unit. These merger and acquisition types of growth opportunities present new challenges as well as opportunities compared to the more familiar stepwise growth. These challenges include:

- a larger resource commitment
- shorter and often steeper learning curve to reach efficiency goals of the larger business
- inherited problems/challenges of the acquired unit
- resource redundancies from merging similar types of businesses
- different work styles or cultures of the people involved in the previously independent business units

These situations are common in merger and acquisition activity outside of production agriculture, and producers can learn from the successes and failures of mergers and acquisitions in other industries.



A New Management Model

Most farmers excel at technical skills—the ability to use tools, techniques, and specialized knowledge to efficiently carry out production. While technical skills will still be important, the new management model for farmers requires more human and conceptual skills. Human skills relate to the ability to function well in inter-personal relationships (see sidebar). Conceptual skills involve the ability to analyze and diagnose complex situations – drawing heavily on the analytical, creative, and intuitive talents. The new model is more of a general business manager rather than a plant or operations manager.

At Greenview Farms, some of these concepts are already in place. Kevin Green would probably much more enjoy spending additional quality time with his tractors or combines. Instead, he feels his time in the office offers greater value to his operation. “I try to make myself as accessible as possible to our co-workers and landowners. Our office in town is a big part of that strategy.”

Change Creates Opportunity

A desegregation or separation of resources, as well as the exits from agriculture, will result in unique and possibly unprecedented opportunities to rent land, provide custom farming or other machine operating services, buy/operate/manage livestock facilities, pursue farming careers in foreman or other management positions, and to align and/or integrate in the value chain.

Managing the growing farm business requires a new skill set and a different style of management than most farmers have experienced during their farming careers. Developing this skill set will

<u>A NEW MANAGEMENT MODEL FOR FARMERS</u>	
<u>Traditional</u>	<u>New</u>
Walk-around, hands-on management	▶ More remote, “in the office” management
Top-down command and control	▶ Team and empowerment structure
Incenting right behavior not critical	▶ Must get incentives right
Operations oriented	▶ CEO mentality—people, money, relationship, strategy
Do it all myself	▶ Leadership, delegate
Little/no compensation—returned to business	▶ Well compensated
Internal expertise and self reliance	▶ Outsource—hire capacity and expertise
Interpersonal relations not critical	▶ Interpersonal skills essential
Organization structure not critical	▶ Organization structure essential
Convergent thinking	▶ Divergent thinking
Monitoring systems embedded in manager	▶ Personal performance monitoring systems critical
Early adoption important	▶ Innovation is important, but must limit the risk
Aversion to risk	▶ Accept risk if downside exposure is limited
Substitute machines for people	▶ Employees critical to business success
Can add activities without giving up any	▶ Trade-offs—can’t add without giving up something
Family personal dynamics important or dominant	▶ Business relationships combined with family dynamics
Closed Communication Style	▶ Open communication style
Closed information system	▶ Open access information system to get right messages and incentives
Need not scale or replicate	▶ Must scale or replicate
Skill in hiring people not critical	▶ Selecting and training the right people critical



not be easy for many because of the abstract nature of the concepts and tasks involved. For those who are able to do so, growth will be more an opportunity and less a challenge.

For More Information

Dobbins, C., M. Boehlje, and A. Miller. Farmers as Plant Managers & General Managers: Which Hat Do You Wear? ID-236, Department of Agricultural Economics, Purdue University.

<http://www.ces.purdue.edu/extmedia/ID/ID-236.html>

Boehlje, M., C. Dobbins, and A Miller, 2000. Checking Your Farm Business Management Skills. Farm Business Management for the 21st Century. ID-237, Purdue University Extension.

<http://www.ces.purdue.edu/extmedia/ID/ID-237.pdf>

Boehlje, M., C. Dobbins, and A Miller, 2001. Are Your Farm Business Management Skills Ready for the 21st Century? Self-Assessment Checklists to Help You Tell. Farm Business Management for the 21st Century, ID-244, Purdue University Extension.

<http://www.ces.purdue.edu/extmedia/ID/ID-244.pdf>

